

<p style="text-align: center;"><b>2007-2008</b> <b>MID-YEAR BUDGET REVIEW</b> <b>Section III</b></p>
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**BUDGET AUGMENTATIONS/REDUCTIONS AND  
CLEAN-UP ADJUSTMENTS**

**Recommended Augmentation/Reduction Adjustments Overview**

This section of the Mid-Year Budget Review summarizes proposed budget augmentations/reductions in all funds and includes a breakdown by the General Fund and by Special/Capital Funds. Both the General Fund and Special/Capital Funds sections are divided into the following two parts:

*Augmentation/Reduction Summary* – The summary that follows describes all proposed augmentations and reductions, except for those detailed in the Clean-Up Adjustment Actions section. The General Fund Augmentations and Reductions are organized into four categories: Required Adjustments, Grants/Reimbursements, Development Fee Programs, and Previous Council Direction. The Special Fund/Capital Funds Augmentations and Reductions are organized by fund.

- The Required Adjustments category contains various recommended adjustments that are considered unavoidable and/or prudent to fund. All the recommended adjustments are fully offset with savings or the use of reserves. The largest proposed changes include: a transfer to the Airport for reimbursement of overpayment for Police services at the Airport during the period 2003-2004 through 2006-2007 (\$646,871), increased funding for the Comprehensive General Plan Update due to additional elements and increased costs (\$600,000), and the recommended release of the Sunshine Reform Reserve to the Information Technology Department for a third party review and planning effort to improve the capacity and usefulness of the City's websites (\$250,000).
- In the Grants/Reimbursements category, revenues received or anticipated to be received from various outside sources are recognized with corresponding appropriations recommended to implement the grants.
- The Development Fee Programs category includes various adjustments to expenditures, revenues, and reserves to reflect projected revenue shortfalls in the Building and Public Works Fee Programs. These actions are recommended to bring expenditures in line with the adjusted revenue estimates while maintaining service levels. In the Planning, Building and Code Enforcement Department's Building Development Fee Program this includes a recommended decrease to the Personal Services appropriation through the elimination of six vacant positions (two of which were temporary), reclassification of four vacant positions, and salary savings (\$1,000,000), a reduction to the Building Fee Program Reserve (\$1,000,000), offset by a reduction to the Program's revenue estimate (\$2,000,000). Recommended actions in the Public Works Development Fee Program include a decrease to the Personal Services appropriation due to salary savings (\$205,000), a reduction to the Public Works Development Fee Program reserve

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**Recommended Augmentation/Reduction Adjustments Overview** (Cont'd.)

Development Fee Programs (Cont'd.)

(\$470,000), offset by a reduction to the Program's revenue estimate (\$675,000). An increase to the Public Works Personal Services appropriation is also recommended to maintain current customer service levels in the first floor Customer Service Center, offset by a reduction in the Building Fee Program Reserve (\$180,000).

- The Previous Council Direction category includes various adjustments that are required to reflect previous City Council actions. Some of the recommended adjustments include an increase to the Future Capital Projects (FF&E) Reserve to replenish the General Fund for the temporary funding of the Police substation (\$1,100,000), increased funding to History San José (\$300,177), the establishment of an arts stabilization flexible fund to help avert financial crises among local arts organizations (\$200,000), the elimination of Mayor and Council Officeholder Accounts and a reallocation of funds to Mayor and Council offices, and the addition of 1.50 positions for a public-private parks maintenance partnership. These adjustments are recommended to be offset by corresponding actions for a net zero cost impact, with the exception of the History San José action, which is recommended to be offset by savings in other General Fund appropriations as discussed in the Required Adjustments category.
- Within the Special Fund/Capital Funds Augmentations summary, there are a number of adjustments to Public Works Capital Management Cost appropriations. These adjustments are recommended in order to bring these appropriations to a level necessary to adequately fund each fund's fair share of Public Works Department administrative and management costs necessary to ensure the delivery of capital projects.

*Augmentation/Reduction Adjustment Actions* – Describes, in a table, the funding source or appropriation adjustments that are required to enact the augmentations and reductions described above.

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**Recommended Clean-Up Adjustment Actions Overview**

The ongoing review and monitoring of the budget through six months of the fiscal year have indicated specific areas where clean-up appropriation actions are required. Revisions are typically required to fully implement City Council direction, to correct existing appropriations, or to provide adjustments necessary to continue City operations.

Tables are provided in this section of the report (with the proposals listed in title only) to summarize the recommended adjustments for the General Fund and Special/Capital Funds. The following types of adjustments are included in this section:

- Net-Zero Salary Program Adjustments – The 2007-2008 Salary Program includes appropriation adjustments to various departments and funds to reflect salary and benefit changes that became effective after the adoption of the 2007-2008 Operating Budget. The largest adjustment reflects \$10.43 million in retroactive payments for salary increases resulting from the International Association of Fire Fighters (IAFF) arbitration resolution. The General Fund increases were all anticipated and are funded from the Salaries and Benefits Reserve.
- Net-Zero Voluntary Furlough/Special Reduced Work Week Program Adjustments – Also included in this section are adjustments to various departments to reflect implementation of the Voluntary Furlough/Special Reduced Work Week Program. Savings (\$374,000 in the General Fund, \$986,000 in all funds) are generated from employees taking unpaid time off (up to 45 hours) without the loss of accrued benefits (vacation, sick leave, and seniority) or reducing their weekly scheduled hours by as much as eight hours per week during the year. These savings were assumed in the development of the 2007-2008 Adopted Operating Budget. The actions reflected here remove the funds from the departments and restore the savings to the Salaries and Benefits Reserve where they were temporarily removed as part of the Adopted Budget.
- Net-Zero Overhead Adjustments – Overhead adjustments are recommended to reflect updated overhead rates that changed after the adoption of the 2007-2008 Adopted Operating Budget and to prevent negative appropriations by year-end or reduce appropriations for lower than previously assumed overhead rates. The recommended actions are primarily offset by fund balances in special and capital funds, based on the revised overhead rates.
- Net-Zero Movements Between Appropriations – Included in this section is a revision to reallocate rent costs for the Old Martin Luther King, Jr. Library among the various Environmental Services funds based on the current occupancy of the facility.

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**Recommended Clean-Up Adjustment Actions Overview** (Cont'd.)

- Rebudget Adjustments not Included in the Annual Report – A revision is proposed to correct an appropriation for an Alcoholic Beverage Control Grant rebudget that is necessary to complete this project and was inadvertently not included in the 2006-2007 Annual Report (approved by Council on October 16, 2007).
- SJRA Project Close-out Adjustments – Revisions are proposed to process the close-out of completed San José Redevelopment Agency-funded projects executed by the City, and to augment appropriations anticipated to be extended at year-end. Per Project Services Memorandum (PSM) agreements, the City executes construction-related projects on behalf of the Agency, and the Agency reimburses the City through the transfer of funds to the Services For Redevelopment Capital Projects Fund. At the completion of a project, construction-related savings are due to the Agency in the form of a refund. Included in this section are either adjustments to increase projects so that refunds can be made to the Agency or adjustments to decrease completed projects that do not require refunds to the Agency. While the actions recommended in this document represent several years' worth of completed project reconciliations, the process for completing project close-outs in this fund has been altered. Per the 2007-2008 cooperation agreement between the City and the Agency, a reconciliation will be completed immediately following project completion, which should prevent future delays in processing refunds to the Agency. Liquidations of carryover encumbrances in these completed projects (\$203,000) will help offset refunds to the Agency and be reconciled in the Services for Redevelopment Capital Projects Fund Ending Fund Balance at the conclusion of the fiscal year.
- Various Net-Zero Technical Adjustments – Several cost-neutral adjustments are included which would either move funding from one appropriation to another for a similar purpose, or from one appropriation to another to correct inadvertent budgeting errors. The largest adjustment that falls under this category is a \$1.0 million reduction to the Parks, Recreation and Neighborhood Services Department budget for the Parks Maintenance Enhancement Strategy, with a corresponding establishment of a City-wide Parks Maintenance Enhancement Strategy appropriation. Also recommended is a \$500,000 reduction to the Workers' Compensation Claims appropriation, with a corresponding establishment of a Workers' Compensation Gain Sharing appropriation.